

FY2011-12
GENERAL
OPERATING FUND –
NARRATIVE BUDGET
REPORT



FY11-12 PROCESS TO DATE

- ✓ November 9, 2010: Recommended Mid-/Long-Term Budget Strategies
- ✓ February 8, 2011: Mid-Year Budget Status Report
- ✓ March 8, 2011: Budget Balancing Blueprint
- ✓ March 22, 2011: Proposed Capital Improvement Program
- ✓ April 19, 2011: Proposed Capital Improvement Program and potential Major Goals
- May 3, 2011: Narrative Budget Report and FY2011-21 Long Range Financial Forecast



PURPOSE

Present the outline for the FY11-12 recommended budget and obtain Council input for preparation of the Proposed Budget for review and adoption in June.



POLICY ISSUES

Council feedback sought on:

- Overall strategy for achieving a structurally balanced budget
 - Balance between supplemental revenues, operating efficiencies, employee compensation cost containment
- Tier recommendations and potential service reductions
- Charleston East lease revenue option recommendation



PRINCIPLES ON WHICH THE BUDGET IS BALANCED

- Structural Balance – Ongoing revenues equal to ongoing expenditures
- Maintain services to the public to the greatest extent possible
- Limit impact to workforce to the greatest extent possible
- Fund long-term obligations
- Maintain infrastructure
- Maintain the City's fiscal sustainability



STATUS OF FY10-11

Structural Deficit:

- Originally projected \$4.6 M structural deficit
 - Operational Efficiencies \$1,289
 - Compensation Cost Containment 790
 - Increased Cost Recovery 970
 - Service and Staffing Reductions 1,535
 - Total Reductions \$4,584
- FY10-11 Adopted: \$87.7 M Revenue/\$87.5 M Expenditures

Balance:

- Revenues estimated essentially as budgeted
- Estimated expenditures below budget \$4.1 M
- Current estimate \$1.4 M operating balance



CARRYOVER BALANCE

- FY10-11 projected carryover recommended to be used for:
 - Bringing Reserves to Policy Levels (General Fund Reserve)
 - Recommended FY11-12 Limited Period Funding – Bargaining Negotiations, Environmental Sustainability Program, UUT Audit, Firefighter Recruitment, and others



CARRYOVER BALANCE (cont.)

- FY08-09 carryover used for:
 - Bringing Reserves to Policy Levels (General Fund Reserve, Compensated Absences)
 - FY09-10 Limited Period Funding – City-Wide Succession Planning, Housing Element, Environmental Sustainability Program, and others
- FY09-10 carryover used for:
 - Bringing Reserves to Policy Levels (Compensated Absences)
 - FY10-11 Limited Period Funding – General Election, Public Safety Dispatcher Overhire, Fire Turnout Replacement, Environmental Sustainability Program, and others

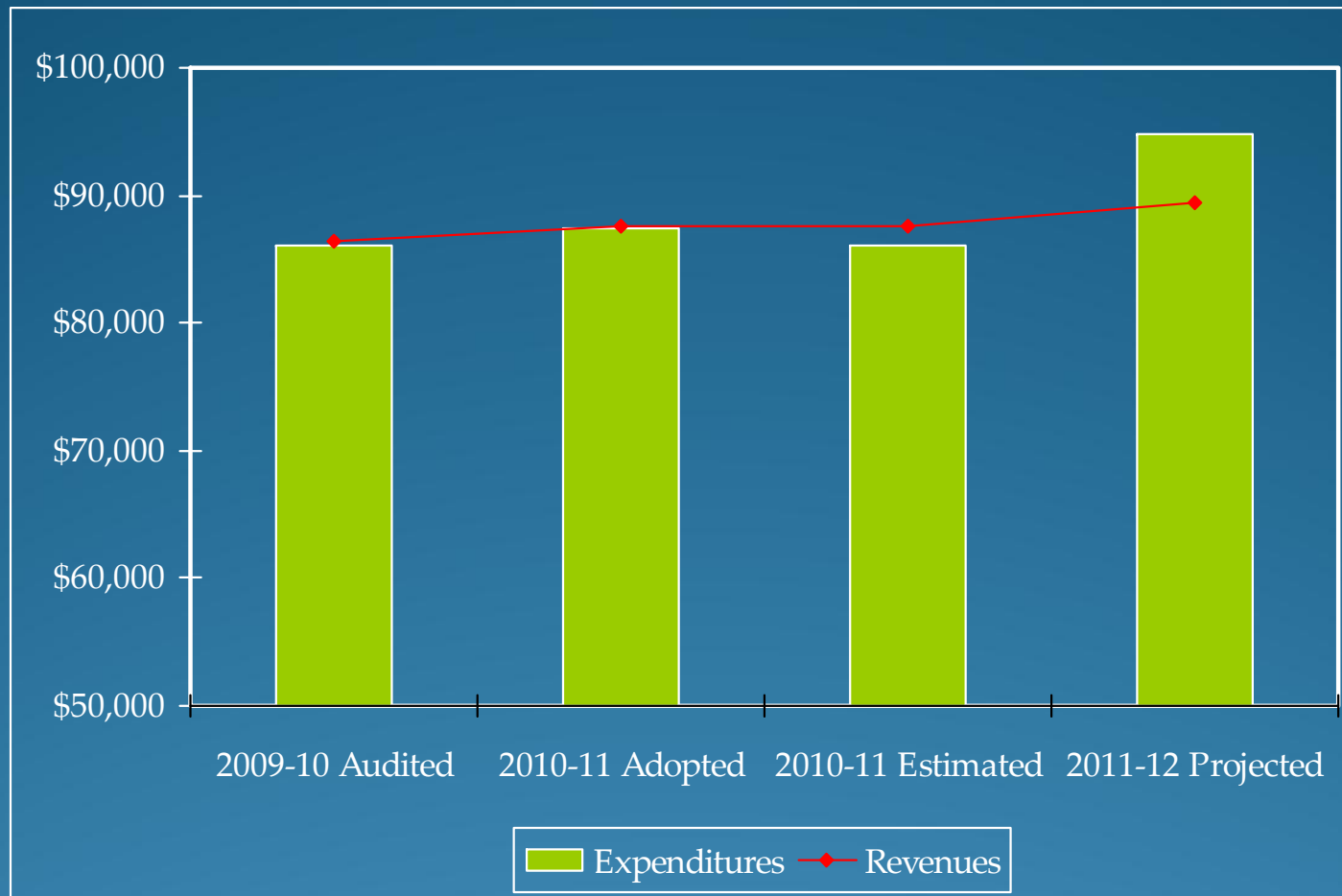


GENERAL OPERATING FUND BUDGET

	2009-10	2010-11	2010-11	2011-12
	<u>Audited</u>	<u>Adopted</u>	<u>Estimated</u>	<u>Projected</u>
Revenues	\$86,416	87,649	87,531	89,360
Expenditures	86,136	90,253	86,155	94,857
Est. Budget Savings	<u>-0-</u>	<u>(2,791)</u>	<u>Included</u>	<u>(2,849)</u>
Operating Balance/ (Deficit)	\$ 280	187	1,376	(2,648)

(amounts in thousands)

GENERAL OPERATING FUND REVENUES AND EXPENDITURES



(amounts in thousands)



PROJECTED “STATUS QUO” FY11-12 BUDGET

Revenues:	\$89.4 M
Expenditures:	94.8 M
Budget Savings	<u>(2.8 M)</u>
Deficit	\$ (2.6 M)

Cause of Deficit:

- Revenues projected to grow \$1.8 M
- Expenditures projected to grow \$4.6 M



FY11-12 EXPENDITURE INCREASES

Projected expenditure growth = \$4.6 M

- Compensation Cost Increases \$3.9 M
- Services and Supplies \$305,000
- State Budget Impacts \$360,000



FY11-12 COMPENSATION COST INCREASES

Retirement (PERS) Costs Rise	\$2,785
Health-Care Benefits Cost Rise	947
Unemployment Insurance	126
Other Compensation Changes	(94)
State Budget Impacts	<u>100</u>
	\$3,864

(amounts in thousands)



"BUDGET BALANCING BLUEPRINT"

	<u>Mid-Year</u>	<u>Narrative</u>
Projected Budget Deficit	\$(2,100)	(2,648)
Balancing Strategies:		
Operational Efficiencies	200	380
Supplemental Revenue	900	1,167
Employee Cost Containment	1,000	1,000
Tier Reductions	<u>-0-</u>	<u>101</u>
Balance	-0-	-0-

(amounts in thousands)



OPERATIONAL EFFICIENCIES

- Organizational Restructuring
- Cost Allocation to Appropriate Funds
- Various Cost Saving Measures



SUPPLEMENTAL REVENUES

Charleston East Lease	\$ 1,050
Center for the Performing Arts	76
First Responder Service	<u>41</u>
	\$ 1,167

(amounts in thousands)



COMPENSATION COST CONTAINMENT

- Goal = \$1.0 M of total \$3.7 M increase (healthcare and retirement costs)
- Meetings with bargaining groups and employee organizations
- Outcome to be determined



EXPENDITURE REDUCTION TIERS

- Current recommendation requires reductions of \$101,000 from Tier 1
- Employee Cost Containment any less than \$1.0 M will require additional Tier 1 and possibly a portion of Tier 2
- Tier 1 Operating Reductions
 - Reduced services for planning, park maintenance, public outreach in Fire and Police, and other service areas
 - Eliminates 5.5 positions (3.0 vacant, 2.5 filled)
 - Estimated savings = \$637,300



EXPENDITURE REDUCTION TIERS (cont.)

- Tier 2 Operating Reductions
 - Reduced services for abandoned vehicles, fraud investigation, Police records, Fire inspections/investigations, and other service areas
 - Eliminates 10.25-10.5 positions (4.25-4.5 vacant, 6.0 filled)
 - Estimated savings = \$1,058,800
- Tier 3 Operating Reductions
 - Reduced services in Police field operations, Fire minimum staffing, tree trimming, Library materials and hours, and other service areas
 - Eliminates 8.5-8.75 Positions (1.5-1.75 vacant, 7.0 filled)
 - Estimated savings = \$2,124,200



UNCERTAINTIES

- State Budget Deficit
- Federal Budget Deficit
- State Pension Reform Proposals
- Potential elimination of Redevelopment Agencies
- Sustainable operating model for the Golf course



CHARLESTON EAST LEASE OPTIONS

- Consistent Revenue Stream & Endowment (Recommended):
 - FY11-12 utilize \$1.1M for GOF
 - FY12-13 and beyond transfer \$750,000 to GOF and \$300,000 for City service enhancements (total annual \$1.1M)
 - Retain \$30M prepaid rent for lease term
- Declining Revenue Stream (Alternative Option 1):
 - Annual rent and interest = \$614,000 to \$1.6M
- Consistent Revenue Stream (Alternative Option 2):
 - Annual rent and interest = \$1.1M
- Alternative options include full expenditure of original \$30M



POLICY DISCUSSION TOPICS

Input on:

- Overall Budget Balancing Strategy
- Expenditure Reduction Tiers
- Recommended Approach of Charleston East Lease Revenue

FISCAL YEARS 2011-21
LONG-RANGE
FINANCIAL FORECAST



INTRODUCTION

- Objective
 - Update of the 10-Year Long Range Financial Forecast
- Purpose
 - Foundation and planning for Council decision making



RESOURCES

- League of California Cities
- California Employment Development Department
- Bureau of Labor Statistics
- Government Finance Officers Association
- Beacon Economics
- City of Palo Alto
- City of Sunnyvale
- San Jose Mercury News
- Office of the Santa Clara County Assessor 2008-09 Annual Report
- Gary Schlossberg/CMTA and CSMFO



ECONOMIC CLIMATE

- The Great Recession
- Slow recovery
- City revenues lag the private sector economy
- Unemployment
- Housing
- Property values



REVENUE BACKGROUND

- Historical experience shows Mountain View has a relatively volatile revenue base
- Strong correlation between economic conditions and the amount of revenues received
- Other factors affecting revenue volatility:
 - Physical characteristics of City
 - Community preferences
 - Diversity of businesses



REVENUES

- Property Taxes (29.1% of GOF Revenues)
 - City's share of 1.0 percent levy on Assessed Value
 - CCPI increase up to 2%
 - Change in Ownership and new development
 - ERAF – loss approximately \$5.1 M for FY 2010-11 and net cumulative loss of \$60.0 M
 - Mountain View fairing better than other communities in the county and state
 - Secured and unsecured



REVENUES (cont.)

- Sales Tax (18.8% of GOF revenues)
 - Shift of commercial industrial to retail sales
 - Peak of \$24.1 M in FY 2000-01 to current year estimate of \$15.9 M
 - Decline of \$2.0 M during the current recession
 - Showing modest signs of recovery
 - San Antonio Center



REVENUES (cont.)

- Other Taxes (11.7% of GOF revenues)
 - Transient Occupancy Tax
 - A 10% tax on hotel/motel occupancies
 - Very susceptible to changes in the economy
 - Business License - remains constant
 - Utility Users Tax
 - Recent ordinance change approved by voters
 - Higher revenues anticipated due to expansion of base
 - Future audit



REVENUES (cont.)

- Use of Money and Property (12.1% of GOF revenues)
 - Investment Earnings
 - Yields decline due to reduction in Fed Fund rate
 - Over 75% of portfolio invested in Treasuries and Agencies (for safety and liquidity) which have direct correlation with the Fed Fund rate
 - Rents and Leases
 - Lease agreements on City-owned properties
 - Does not fluctuate with short-term downturns
 - Most include annual CPI increases
 - New Charleston East lease



REVENUES (cont.)

- Other Revenue (12.1% of GOF revenues)
 - Franchise Fees
 - Licenses and Permits
 - Fines and Forfeitures
 - Intergovernmental
 - Service Charges
 - Miscellaneous
 - Interfund



REVENUES (cont.)

- Loan Repayments (2.1% of GOF revenues)
 - Revitalization Authority
 - Assumes no future loan repayments
 - Shoreline Regional Park Community
 - Final repayment by FY 2015-16



EXPENDITURES

- Salaries and benefits (80% of GOF expenditures)
 - No COLAs in forecast
 - PERS increase
 - Health benefit increase



EXPENDITURES (cont.)

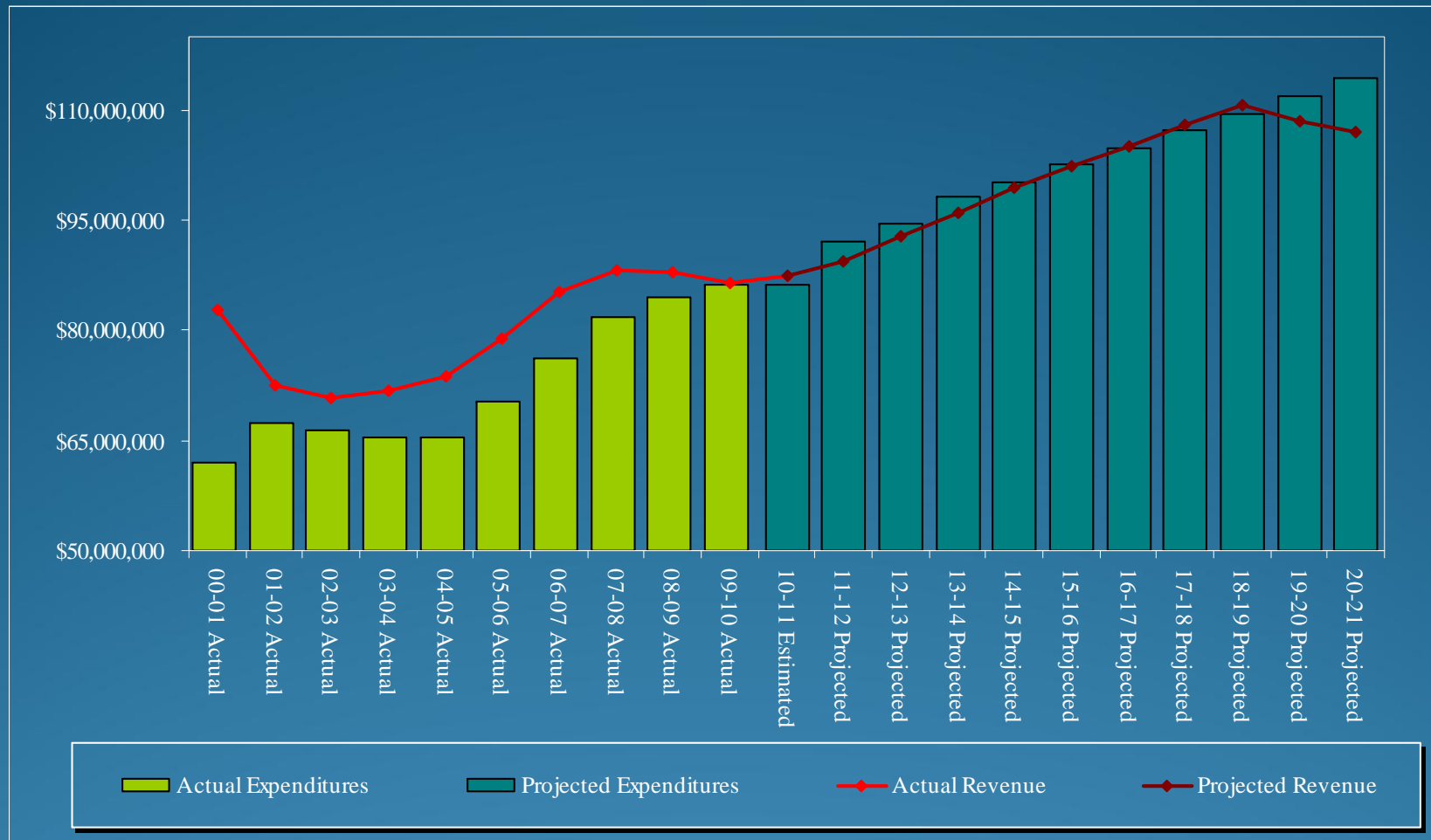
- Services and supplies (15% of GOF expenditures)
- Capital Outlay and Equipment Replacement
- Self-Insurance Costs
- Debt Service



SUMMARY

- Revenues are recovering but the recovery is slow
- No COLAs are built into the forecast
- Another economic downturn built into the forecast (last two fiscal years)
- Forecast deficit for FY2011-12; if balanced results in positive operating balances until next recession

TRENDS



Projected Expenditures include estimated budget savings.

TRENDS



Projected Expenditures include estimated budget savings and assumes FY11-12 is structurally balanced